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Non-Domestic Venture Capital And Fate Of Such Ventures

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ABSTRACT
This study examines non-domestic venture capital and fate of such ventures in Nigeria. Specifically, the study examines how market size, regulatory environments, exist strategies, and cultural and religious challenges affect the profitability of non-domestic venture capital. The data utilised in this study were obtained by the distribution of structured questionnaires to a total of 138 respondents. However, only 128 questionnaires were deemed legitimate and included in the analysis. The study employed the Probit regression technique with a significance level of 5%. The findings from the Probit regression analysis indicate that market size is positive and significant to profitability, regulatory environment and exist strategies are positive but insignificant to profitability, and cultural and religious challenges are negative and significant to profitability of non-domestic venture capital. In conclusion, the study suggests that market size and cultural and religious challenges are the two most significant factors that affect the fate of non-domestic venture capital in Nigeria. The study recommends the Nigerian federal government should establish and enforce trade policies and tax legislation that are beneficial for foreign-based venture capitalists. For example, tax legislation that does not mandate the foreign investor to pay further taxes once they have recovered their investments from the supported company as per the agreement. Foreign venture capitalists should analyse the market before investing in startups and small enterprises to avoid impacting their profitability.
Keywords: Foreign, Equity Funding, Nigeria, Business Angels, Local

INTRODUCTION

Innovation is the primary catalyst for economic advancement. The global market competitiveness has evolved to a technology-oriented focus due to the increasing globalisation of economic and industrial chains (Elsafty et al., 2020; Mahfud et al., 2020). During the 1990s, the rapid technical advancements by high-tech companies globally significantly contributed to the growth of venture capital, which in turn played a crucial role in the expansion of the world economy and technology. Boyle (2023) defines venture capital as a form of funding provided to newly established companies and small businesses with the potential for high growth and above-average returns, typically driven by innovation or by creating a new industry segment. Boyle (2023) stated that investments can involve more than just financial resources and may also include technical or administrative expertise. The resources primarily originate from affluent investors, investment banks, and specialised venture capital funds. Venture capital is a key mechanism used by private equity investors to provide funding to startups, early-stage, and developing enterprises with significant development potential, as stated by Cumming et al. (2023). San-José, Roure, and Aernoudt (2005) state that venture capital financing can be either domestic or foreign (non-domestic).

Domestic venture capital operates within the country where it is located, while foreign venture capital operates outside the company's home country.

Foreign venture capital, just like domestic venture capital, encounters numerous hurdles in Nigeria. A foreign venture capital firm is prone to encountering challenges due to cultural, legal, and institutional differences between its home country and the country where its invested enterprises are located (Dai et al., 2012; Guler & Guillén, 2010; Li et al., 2014). Geographic distance negatively impacts foreign venture capital firms when interacting with the companies they invest in, such as providing advice and oversight. Foreign VC firms possess unique knowledge of foreign markets and social capital in the international context, which can offer exceptional opportunities that local VC firms may struggle to match.

The reviewed studies on venture capital financing specifically examined the impact of domestic venture capital on the performance of small and medium-sized enterprises in Lagos (Adeniken, Oki, & Maimako, 2020). This study is limited as it does not address the issues encountered by foreign venture investors in Nigeria. Therefore, the aim of this study is to bridge this information gap. Also, most research on venture capital focuses on African and developed economies (Hategа & Pitora, 2018; Cheboi, 2014; Tshabalala, 2017; Pape, 2014; Birundu, 2015; Bruton, Khavul, Siegel, & Wright, 2015; Ahtila, 2014). This study is conducted in Nigeria. The research by Adeniken, Oki, & Maimako (2020), Tshabalala (2017), Hategа & Pitora (2018), and Bruton et al. (2015) primarily focus on the impact of venture capital on SMEs in Nigeria. This study is distinctive because it focused on non-domestic venture capital and its fate in Nigeria.

Review of Related Literature

Concept of Non-Domestic Venture Capital

Non-domestic venture capital refers to venture capital (VC) investments made by investors from one country into startups or businesses located in another country. In other words, it involves the flow of capital from foreign investors or venture capital firms into businesses that are not based in their home country. It involves investments that cross national borders which can be driven by various factors such as seeking attractive investment opportunities, diversifying investment portfolios, or accessing emerging markets with high growth potential. As the world becomes more interconnected, startups often seek funding from investors outside their home country which allows them to access a broader pool of capital, expertise, and networking opportunities. Non-domestic venture capital provides investors with the opportunity to diversify their portfolios across different geographic regions and industries helping them to spread risk and potentially enhance returns by tapping into diverse markets and economic conditions. Beyond capital, non-domestic venture brings valuable expertise, industry knowledge, and networking opportunities to startups.

Types of Non-domestic Venture capital

Venture capital (VC) typically refers to the investment made in startups and small businesses with high growth potential. Non-domestic venture capital, also known as international venture capital, involves investments made by venture capital firms from one country into startups or businesses located in another country. There are various types of non-domestic venture capital, and these can be categorized based on different criteria:

a. **Cross-border Venture Capital:** This type of venture capital can be inbound which refers to investments made by foreign venture capital firms into startups or businesses in a specific country or outbound which involves domestic venture capital firms making investments in startups or businesses located in other countries.
b. **Emerging Markets Venture Capital:** this type of venture capital targeting startups in developing or emerging economies and also focuses on investing in businesses in the least developed and smaller markets globally.
c. **Global Venture Capital Funds:** involves multi-national venture capital investment funds with a global reach, making investments across various countries and regions.

d. **Sector-Specific Venture Capital:** This type of venture capital on specific area like investments in technology startups globally or on healthcare and life sciences startups internationally.
e. **Corporate Venture Capital (CVC):** centers on international corporate venture capital investments made by multinational corporations in startups located outside their home country.

Some Non-Domestic venture Capital Operating in Nigeria

TLcom Capital: TLcom Capital is a venture capital firm with a focus on technology-enabled services in sub-Saharan Africa. They have shown interest in Nigeria and have invested in Nigerian startups. As an Africa focused tech VC, with offices in Lagos, Nairobi and London as stated in their LinkedIn profile, TLcom had been investing since 1999 in Tech, Media, Mobil and Internet companies across Europe, US and Africa, which is the exclusive focus of its most recent TLcom TIDE Africa funds as stated in their site.

Novastar Ventures: Novastar is a global VC working from the entrepreneurial centers of Lagos, London and Nairobi. They partner with entrepreneurs building businesses in Africa that create lasting value for the many. Novastar Ventures has a broader focus on East and West Africa with investments in Nigerian startups. They typically focus on businesses with the potential for high impact in sectors such as healthcare, education, and agriculture as stated in their LinkedIn site.

EchoVC Partners: EchoVC Partners is a venture capital firm with a presence in Africa and North America. They have invested in several Nigerian startups in sectors like fintech, health tech, and e-commerce. As stage-agnostic investors with a combined network of local and global connections, they bring a disruptive approach to investing at the technology intersection of consumer, media, data, & devices and leverage knowledge transfer from Silicon Valley as a driver to seed growth across borders.

The Fate of Non-Domestic Venture Capitalist

The fate of non-domestic venture capitalists, like any investors, can vary based on several factors such as market conditions, economic trends, regulatory environments, and the performance of the startups they invest in. Here are some potential outcomes:

a. **Success**: If the venture capitalists make wise investment decisions and support successful startups, they stand to make significant returns on their investments. Success is often measured by the profitability and growth of the portfolio companies.
b. **Failure**: On the flip side, some investments may not perform as expected, leading to financial losses. Economic downturns, market uncertainties, or poor management within portfolio companies can contribute to failures.
c. **Market Conditions**: Non-domestic venture capitalists may be influenced by global economic conditions, geopolitical events, and regional market trends. Changes in currency values, trade policies, or global economic downturns can impact the fate of their investments.
d. **Regulatory Challenges**: Non-domestic venture capitalists may face regulatory challenges in foreign markets. Changes in regulations related to foreign investments, trade policies, or tax laws can affect the feasibility and success of their ventures.
e. **Cultural and Operational Challenges**: Operating in a foreign market may present cultural and operational challenges. Understanding the local business environment, building effective partnerships, and navigating different business practices are crucial for success.
f. **Portfolio Diversification**: The fate of non-domestic venture capitalists can also be influenced by the diversity of their investment portfolios. Diversification helps mitigate risks as losses in one sector or region may be offset by gains in others.
g. **Exit Strategies**: The success of venture capitalists often depends on their ability to exit investments profitably. This can be through IPOs (Initial Public Offerings), acquisitions, or other exit strategies. Market conditions and the overall health of the startup ecosystem can impact the availability of exit opportunities.
h. **Adaptability and Resilience**: The ability of non-domestic venture capitalists to adapt to changing market dynamics, economic shifts, and technological advancements is crucial. Being

resilient and adjusting investment strategies based on the evolving landscape is key to long-term success.

The fate of non-domestic venture capitalists is complex and multifaceted. Success depends on a combination of strategic decision-making, understanding local and global market dynamics, and effectively managing challenges that may arise during the investment lifecycle.

This study is anchored on globalization, market seeking, and technology transfer theories.

Globalization Theory: The world as we know it now is structured by globalisation, as stated by Kellner (2002). Therefore, according to Parjanadze (2009), "globalisation theory" is a collection of viewpoints and theoretical frameworks that aims to decipher the intricate web of worldwide social, cultural, political, and economic activities. Rosenberg (2005) defines it as "the transnational integration of the world to form a single social space," and the discipline arose in the late 20th century in reaction to the growing interdependence and connectivity of states and civilizations throughout the globe. A more interdependent and linked world is the result of globalisation, which entails the movement of products, services, data, and people across international boundaries. According to this notion, venture investors are looking for chances abroad to tap into varied industries and technology because of the growing global connectivity. Venture capitalists can diversify their holdings, lower their risk, and get access to developing markets with enormous development potential thanks to globalisation.

Market-Seeking Theory: Foreign direct investment (FDI) and international business often bring up the idea of market-seeking hypothesis. The other two major theories of FDI, resource-seeking and efficiency-seeking, are this one and the same (Wadha & Reddy, 2014). Company investments in international markets are rationalised by market-seeking theory as a means to better access and service such markets. Investing in companies abroad allows venture capitalists to gain exposure to diverse business environments, unique technologies, and untapped consumer bases. This appeals to non-domestic venture capitalists who are looking to access and exploit new markets, particularly in regions with high return potential.

Technology Transfer Theory: Theorising and researching what factors, processes, and procedures impact the transfer of technology from one setting to another is what technology transfer theory is all about. The purpose of this transfer is to stimulate innovation, economic development, and societal advancement through the mobility of knowledge, skills, and technology. It can occur between organisations, industries, countries, or regions. International investment allows venture capitalists to acquire innovative technologies that might not be easily accessible or created in their home country. This gives them a leg up in the competition, and investing globally also helps spread knowledge and skills.

Empirical Review

Carneiro, Moreira, and Sheng (2022) look at the question of whether or not venture capitalists have an effect on small businesses' efforts to expand internationally, and if so, whether this effect varies between domestic and international VCs. Findings suggest that the breadth of the industry (global vs. local industries) and the firm's vocation (born global firm versus local leader) are two factors that influence the effect of the Venture Capital and its nationality on the internationalisation of investee firms.

Johansson, Malmström, and Wincent (2021) compare the effects of public and Private Venture Capitals. Data for the study came from 21 SMEs in Romania between 1992 and 2019. The panel regression method was employed in the research. Romanian SMEs saw substantial performance boosts from venture capitalists, both public and private, according to the report.

Ma, Cai, Wang, and Farooq Sahibzada (2021) The effect of venture funding on the innovation performance of 927 start-ups from 2008 to 2017 is examined. Although venture capital (VC) did not directly stimulate business patents, it did help get innovations to market by establishing a positive correlation with total factor productivity (TFP) and a statistically significant negative correlation with patents. Additionally, it shows that Venture Capital and Patent do not mediate the relationship between Venture Capital and TFP, but that management of cash incentives (MCI) and management equity incentives (MEI) do.

Ghassemi, Song, and Alhanai (2020) look at the relationship between the make-up of early-stage startup teams, the characteristics of their businesses, and the likelihood that they will be nominated to a top entrepreneurship competition and that they will remain in business two years later. The study used sixteen characteristics of each company to find that teams with a variety of academic and professional backgrounds had a better chance of survival than enterprises with overly optimistic business abstractions or ideas that tried to break into already-established markets.

Adeniken, Oki, and Maimako (2020) looked at how venture capital relates to the expansion of small and medium-sized enterprises (SMEs) in Nigeria, We used SPSS's Structural Equation Modelling (SEM) method to examine the survey responses. According to the results, venture capital greatly helps small and medium-sized enterprises (SMEs) expand. When it comes to small and medium-sized enterprise (SME) financial management and innovation, the results show a strong positive correlation between venture capital and both. Nonetheless, there was no statistically significant correlation between VC and SME management practises.

Woo (2019) investigates the impact of VC companies based outside of the country on the internationalisation and success of investee businesses. In the United States, the research looks at 551 VC-backed businesses that were public between the years 2000 and 2014. To address a possible endogeneity issue, we employ a two-stage strategy and test hypotheses with logistic regressions and generalised linear models. Based on the data, the author concludes that venture capital investments from outside the country increase the chances of internationalisation and the intensity of sales to foreign markets. Furthermore, the author discovers that when a venture receives funding from a foreign VC firm, internationalisation and foreign sales intensity are positively linked to firm performance.

Tshabalala (2017) investigated the effect of the company's internal funding sources on its expansion. South Africa was the site of the research. The research included all small and medium-sized enterprises (SMEs) in South Africa that were registered. A panel data methodology was used in the study in addition to the fixed and random effects. The most important takeaways were that venture capital funding does affect company performance.

Ahtila (2014) studied the factors that angel investors in the UK considered when choosing which companies to back between 2005 and 2010. Pitch meetings were observed for the purpose of the study. Findings indicate that angel investors are more active during a company's launch and early phases. The study found that angel investors look at the product and the entrepreneur's finances when making investment decisions.

Pape (2014) looked at data from the UK between 2000 and 2010 to find out how angel investors' involvement correlated with performance. To analyse the collected data, the SEM method was employed. Their research indicates that there is a complicated relationship between Investment performance is negatively affected by offering management time (a sounding board/strategic role) and helping with strategic/management issues (a sounding board/strategic role), but resource acquisition is positively affected by helping to find suppliers and customers and additional fundraising from other business angels. "Interaction frequency" has a detrimental effect on angel investors' investment returns.

Agyeman (2010) studied the difficulties encountered by venture capital businesses in developing nations, focusing on Ghana. Using a combination of semi-structured interviews, documentary evidence, and first-hand observation Inadequate outlet possibilities owing to a stable IPO environment, inadequate industry laws and rules and regulations, inadequate assistance for research and development, and poor record-keeping by SMEs are among the many difficulties that the author identified as plaguing the venture business.

METHODOLOGY

The researchers in this study used a quasi-experimental technique called a cross-sectional survey. The idea behind this approach was to encourage the implementation of new habits without influencing factors that were out of our hands. Quanta Capital, Clock Tower Technology Ventures, Sequoia Capital, Bossanova Investimentos, and Bertelsmann Asia Investments are the top five international VC firms

among the twenty-seven non-domestic VC firms in Nigeria (Statista, 2023). This is because the researchers had no trouble getting their hands on the data they needed to conduct the study. Roughly 200 people make up the group of individuals that served as data sources for the study.

In order to reduce the possibility of bias in the sample selection process, this study employed the systematic sampling technique. According to Yamane's (1968) formula, 133 people made up the sample used in this study. To account for people who don't want to answer or who have problems submitting their surveys, an extra 10% is used. The result is that there are now 147 participants in the study.

The sources data used in this study were both secondary and primary. Using a well-crafted questionnaire with both multiple-choice and open-ended questions, primary data was obtained. We took great pains in crafting the questionnaire to guarantee that it would elicit useful responses. There were two parts to the survey; the first consisted of collecting participants' demographic and personal information. This section offers an answer to the questions asked by the respondents on the factors under consideration. This study made use of secondary materials such as scholarly articles, textbooks, and internet databases. Primary data is information that the researcher gleans from people in the field, namely those who made up the sample and were given questionnaires. A combination of structured (closed-ended) and unstructured (open-ended) questionnaires were used to gather data from all aspects of the study. A Likert scale with choices to strongly agree or disagree was also included. In this study, we use the probit regression method to examine responses to structured surveys.

To determine how trustworthy the survey was, this research used the Cronbach alpha test. The reliability of the measuring tool was checked using Cronbach's alpha coefficient. The reliability of the instrument can only be proven if the Cronbach alpha coefficient is at least 0.7. All of the instruments utilised in this study have Cronbach alpha values more than 0.7, which is a strong indicator of their reliability.

RESULTS AND DISCUSSIONS

Data Analyses

Table 4.1 Distribution and Retrieval Frequency of Questionnaire

	Frequency	**Percentage**
Number of Respondents	147	100%
Retrieved Questionnaires	138	93.8%
Valid Questionnaire	128	87.1%

Source: Author's Field Survey (2024)

We found that 147 individuals was an adequate sample size for the investigation in the previous section. Although all 147 participants (100%) were contacted from the sample, only 138 (93.8%) returned the questionnaires in the end. This means that 6.2% of the people who were questioned did not fill out the questionnaire completely, which meant that they were not included in the study. The result was that 128 surveys (or 87.1% of the total) were valid and could be used for the research.

Demographic Analysis

Gender, marital status, age range, educational attainment, and duration with the public sector were among the demographic characteristics analysed.

Table 4.2 Gender Distribution

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	51	39.8	39.8	39.8
	Female	77	60.2	60.2	100.0
	Total	128	100.0	100.0	

Source: SPSS 25 Output

According to the data presented in Table 4.2, there was a higher representation of female survey participants compared to male survey participants. The sample size consisted of 77 respondents who are females accounting for 60.2 percent and males accounting for 51 (39.8 percent) of the participants. This suggests that a significant proportion of interviewers employed are female.

Table 4.3 Age Distribution

Age range

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-30 yrs	23	18.0	18.0	18.0
	30-39 yrs	28	21.9	21.9	39.9
	40-49 yrs	42	32.8	32.8	72.7
	50-above	35	27.3	27.3	100.0
	Total	128	100.0	100.0	

Source: SPSS 25 Output

Table 4.3 displays the distribution of respondents according to their age range. The data reveals that the largest proportion of respondents, comprising 32.8%, falls within the age group of 40 to 49. Following this group, respondents aged 50 and above constitute 27.3% of the total sample. The age group of 30 to 39 represents 21.9% of the respondents, while the age group of 18 to 30 accounts for 18.0% of the sample.

Table 4.4 Distribution of Marital Status

Marital status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Married	35	27.3	27.3	27.3
	Widowed	29	22.7	22.7	50.0
	Divorce/Separated	39	30.5	30.5	80.5
	Single	25	19.5	19.5	100.0
	Total	243	100.0	100.0	

Source: SPSS 25 Output

The distribution of respondents' marital status can be observed by referring to Table 4.4. The marital status of the majority of participants (35 individuals) indicates that they are married. Among these individuals, 39 reported being divorced or separated, 29 reported being widowed, and 25 reported being single.

Table 4.5 Distribution of Educational Qualification

Highest Level of Education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	O-Levels	6	4.7	4.7	4.7
	OND/NCE	25	19.5	19.5	24.2
	Bachelor	54	42.2	42.2	66.4
	Masters	37	28.9	28.9	95.3
	Ph.D	6	4.7	4.7	100.0
	Total	243	100.0	100.0	

Source: SPSS 25 Output

The educational attainment of the respondents is illustrated in Table 4.5. The majority of participants possess a Bachelor's degree, accounting for 54 individuals or 42.2% of the total sample. This is followed by individuals with a Master's degree, OND/NCE qualifications, O-level qualifications, and a Doctorate degree (Ph.D.), comprising 37 (28.9%), 25 (19.5%), 6 (4.7%), and 6 (4.7%) participants respectively.

Probit Regression Test

The Probit test was employed in this study to examine the relationship between non-domestic venture capital and fate of such ventures in Nigeria. According to the decision rule, the acceptance of the alternative hypothesis is warranted when the p-value is found to be less than 0.05. On the other, if the p-value exceeds 0.05, it is appropriate to accept the null hypothesis.

Table 4.6: Probit Regression Result

Parameter Estimates

	Parameter		Estimate	Std. Error	Z	Sig.
PROBIT[a]	Market Size		.207	.054	3.833	.001
	Regulatory Environment		.353	.252	1.400	.162
	Exist Strategies		.342	.215	1.591	.193
	Cultural/Religious Challenges		-.205	.050	-4.100	.000
	Intercept[b]	0	.277	.245	1.132	.258
		1	-.175	.051	-3.431	.004

a. PROBIT model: PROBIT(p) = Intercept + BX

Source: SPSS 25 Output

Table 4.6 indicates a substantial (.001) and positive (.207) correlation between the market size of non-domestic venture capital and their profitability. This suggests that a slight increase in market size by one unit will lead to a .207 unit increase in the profitability of non-domestic venture capital. The regulatory environment has a positive effect of 0.353 on the profitability of non-domestic venture capital, however this effect is not statistically significant at 0.162. An increase in Nigeria's regulatory environment will lead to a 0.353 unit gain in the profitability of non-domestic venture capital.

Strategies of non-domestic venture capital have a statistically significant positive correlation with their profitability, with coefficients of .193 and .342. This suggests that a slight increase of one unit in existing techniques will lead to a profitability boost of 0.193 units for non-domestic venture capital. Cultural and religious issues have a statistically significant detrimental impact on the profitability of international venture capital. An increase in the cultural and religious issues in Nigeria will lead to a decrease in the profitability of foreign venture capital by 0.205 units.

DISCUSSION OF FINDINGS

The market size of Nigeria greatly enhances the profitability of foreign venture capital in the country. Growth in the non-domestic sector is largely stimulated by the relative market size of Nigeria. The rise in population and income in Nigeria leads to an increase in non-domestic venture capital due to higher profitability. Ensuring their ongoing existence.

Nigeria's regulatory environment boosts the profitability of foreign venture capital. A positive regulatory environment in Nigeria leads to increased profitability for foreign venture capital investments. The insignificant component is due to the absence of specific trade policies and tax regulations being implemented, which impact the operation of foreign venture capital in Nigeria. Furthermore, there is the issue of frequent changes in government policy that impact the destiny of foreign venture capital.

The exist strategies of the non-domestic venture capital promotes their profitability but not substantially. The more advantageous the existing techniques of the non-domestic venture capital, the more profitable they will be. Therefore, guaranteeing the continuous existence of the non-domestic venture capital. The weak relationship is due to the stringent restrictions that make it less profitable for these foreign venture capitals to combine their money and send them back to their country of origin.

Cultural and religious challenges substantially hinder the profitability of non-domestic venture capital in Nigeria. This demonstrates that as more cultural and religious challenges abode in Nigeria, the lower the profitability of non-domestic venture capital. This is because these cultural and religious challenges like the forbidding of eating of pork meat in northern Nigeria and the abysmal attitude towards the consumption of alcohol by Muslims and Pentecostal Christians hinders the ability of non-domestic venture capital to invest in some of startups and small businesses; thus, reaping them of significant profit.

CONCLUSIONS AND RECOMMENDATIONS

This study examines non-domestic venture capital and fat of such ventures in Nigeria. The survey data was evaluated via the Probit regression method to enhance the robustness of the analysis. The study suggests that market size and cultural and religious challenges are the two most significant factors that affect the fate of non-domestic venture capital in Nigeria. The study presents the following recommendations:

i. The Nigerian federal government should establish and enforce trade policies and tax rules that are beneficial for foreign-based venture capitalists. For example, tax legislation that does not mandate the foreign investor to pay further taxes once they have recovered their capital from the supported enterprises as specified.
ii. Non-domestic venture capitalists should perform market analysis before investing in startups and small enterprises to avoid impeding their profitability.
iii. Non-domestic venture capitalists should agree with startups and small businesses on a phased withdrawal of their finances and resources to avoid making it challenging for these businesses to repay the investments.

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